

## Message Text

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ACTION OPIC-06

INFO OCT-01 NEA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01

INR-07 NSAE-00 USIA-15 XMB-04 LAB-04 SIL-01 L-03 /094 W

----- 017512

R 261008Z FEB 76

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 4788

INFO USDOC WASHDC

TREASURY DEPT WASHDC

AMEMBASSY JIDDA

AMEMBASSY TEHRAN

UNCLAS KUWAIT 0958

COMMERCE FOR CAGNE

TREASURY FOR OSAA

DEPARTMENT PASS OPIC

E.O. 11652: N/A

TAGS: EFIN, ECRE, BEXP KU

SUBJECT: SURETY BOND DISCUSSIONS IN KUWAIT

SUMMARY: DURING TWO DAYS OF MEETINGS WITH BANKERS AND OTHERS INTERESTED ON PERFORMANCE BOND/LETTER OF CREDIT PROBLEM, USG TEAM LEARNED THAT SITUATION IN KUWAIT APPARENTLY MORE FLEXIBLE THAN WAS SO IN SAUDI ARABIA AND IRAN. POSSIBILITY EXISTS OF BACKING PERFORMANCE BONDS ISSUED BY LOCAL BANKS WITH SURETY BONDS AND GOK ITSELF MAY BE WILLING DEFINE AREA TO WHICH PERFORMANCE BOND APPLIES SO THAT MAGNITUDE OF PROBLEM FOR US CONSTRUCTION FIRMS IS DIMINISHED. NOT CLEAR WHETHER KUWAITI INSURANCE INDUSTRY IS LARGE ENOUGH TO BE ABLE TO ACT WITH US SURETY FIRMS IN THIS AREA BUT THIS COULD BECOME POSSIBLE IN FUTURE. KUWAITIS APPEAR INTERESTED IN FURTHER CONSIDERATION OF SURETY BONDS, AND EMBASSY REQUESTS THAT WE BE KEPT ABREAST OF

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NEW INFORMATION AND DEVELOPMENTS IN THIS SUBJECT. END SUMMARY

1. TEAM CONSISTING OF BAZARIAN AND MACFADDEN FROM TREASURY, HEARN FROM COMMERCE AND LERCH FROM SURETY INDUSTRY (FIRST DAY ONLY) VISITED KUWAIT FEBRUARY 23 AND 24 WHILE HERE THEY VISITED WITH SENIOR OFFICIALS OF SIX BANKS AND HAD OPPORTUNITY DISCUSS PERFORMANCE BOND/LETTER OF CREDIT PROBLEM WITH FORMER MEMBER OF KUWAIT CENTRAL TENDERS COMMITTEE, MINISTRY OF PUBLIC WORKS OFFICIAL MOST CLOSELY INVOLVED WITH TENDER PREPARATIONS AND MANAGER OF KUWAIT GAS UTILIZATION PROJECT, LARGEST CONSTRUCTION PROJECT CURRENTLY UNDERWAY IN KUWAIT. SEVERAL BANK OFFICIALS AND KGUP MANAGER ARE AMERICAN. ECONCOUNS ACCOMPANIED GROUP ON ALL MEETINGS.

2. AT EACH MEETING VISITORS OUTLINED BASIC PROBLEM FACING US CONSTRUCTION INDUSTRY ARISING OUT OF COMBINATION OF LARGE PROJECTS, AREA TRADITION OF REQUIRING PERFORMANCE BONDS BY LOCAL BANKS BACKED BY LETTERS OF CREDIT ISSUED BY INTERNATIONAL BANKS AND CURRENT US REGULATIONS. THEY ALSO OUTLINED OUR IDEAS REGARDING USE OF SURETY BONDS, PREFERABLY DIRECTLY WITH PURCHASERS OF CONSTRUCTION SERVICES, ALMOST ALWAYS GOVERNMENTS OR GOVERNMENT AGENCIES. TEAM BRIEFED KUWAITI OFFICIALS AND BANKERS ON ITS FINDINGS IN IRAN AND SAUDI ARABIA.

3. MOST LOCAL INDIVIDUALS WITH TEAM WHOM MET WERE FAMILIAR WITH PROBLEM, BUT THEIR REACTIONS VARIED. THEY WERE UNANIMOUS IN SAYING GOK WOULD NOT RPT NOT WISH TO SWITCH FROM PERFORMANCE BONDS ISSUED BY LOCAL BANKS TO SURETIES WITH FOREIGN FIRMS. HOWEVER, SEVERAL BANKERS EXPRESSED POSSIBLE INTEREST IN BACKING PERFORMANCE BONDS WITH SURETY BONDS RATHER THAN WITH LETTERS OF CREDIT. ONE BANKER TOLD US THAT IN ONE CASE INVOLVING LARGE, WELL KNOWN DIVERSIFIED COMPANY (NOT AMERICAN AND PROBABLY JAPANESE) IT ISSUED PERFORMANCE BOND WITHOUT ANYTHING ELSE EXCEPT COMPANY'S OWN GUARANTY. IN ANOTHER CASE PERFORMANCE BOND WAS BACKED BY GUARANTY OF PARENT FIRM OF LOCAL ENTITY, AN AMERICAN OIL COMPANY. GIVEN THIS WILLINGNESS TO MAKE SPECIAL EXCEPTIONS, BANKERS SAID THEY POSSIBLY WOULD BE INTERESTED IN PERFORMANCE BOND/SURETY BOND ARRANGEMENT FOR SELECTED CONSTRUCTION COMPANIES.

4. MANAGER OF KGUP PROJECT EXPLAINED THAT IN THAT SITUATION,  
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WHERE ONE OF THREE PRIME CONTRACTS WAS WORTH ABOUT \$400 MILLION, PROJECT WAS DIVIDED INTO LOCAL SERVICES, EQUIPMENT AND CONSTRUCTION SERVICES ACTUALLY PROVIDED BY PRIME CONTRACTOR. PERFORMANCE BOND REQUIRED ONLY ON LAST ITEM WHICH WORTH APPROXIMATELY 10 PER CENT OF TOTAL VALUE OF CONTRACT. THUS PERFORMANCE BOND WAS 10 PER CENT OF 10 PER CENT OR ONLY ONE PER CENT OF CONTRACT VALUE AND A SUM MUCH EASIER FOR US CONSTRUCTION COMPANY INVOLVED TO HANDLE THAN IF BOND WAS BASED ON TOTAL VALUATION

OF CONTRACT.

5. ONE LOCAL BANKER INDICATED THAT CERTAIN US CONSTRUCTION FIRMS COULD GAIN LETTER OF CREDIT FROM EUROPEAN BANKS AND THEREBY GET AROUND PROBLEM OF SATURATED CREDIT LIMIT COMPANIES FACE WITH US BANKERS. BANKERS SAID THAT IN SOME INSTANCES LOCAL KUWAITI PARTNERS OF US CONSTRUCTION FIRMS WILLING OBTAIN LETTER OF CREDIT, AND AS WE HAVE NOTED IN PREVIOUS REPORTING AT TIMES US AND LOCAL FIRMS SHARE COSTS.

6. COMMENT: IN KUWAIT GOK REQUIRES AND WILL CONTINUE TO INSIST ON PERFORMANCE BOND ISSUED BY LOCAL BANK. THIS SEEMS UNLIKELY TO CHANGE ANY TIME SOON. THEREFORE, ANY BREAKTHROUGH WILL HAVE TO BE MADE WITH BANKS, BUT THAT DOES SEEM TO BE POSSIBLE, PARTICULARLY WHERE US BANKERS ARE MANAGING LOCAL BANKS. THIS, TOGETHER WITH WILLINGNESS IN SOME INSTANCES (E.G. KGUP) TO DEFINE AREA TO BE COVERED BY PERFORMANCE BOND AS NARROWLY AS POSSIBLE, SUGGESTS THAT US CONSTRUCTION FIRMS MAY NOT BE AS HINDERED IN KUWAIT AS IN IRAN AND SAUDI ARABIA OR OTHER NEIGHBORING COUNTRIES. ON OTHER HAND, BASED ON LERCH'S REACTION TO REMARKS BY LOCAL BANKERS, APPEARS TO US THAT US SURETY INDUSTRY RELUCTANT TO BACK LOCALLY ISSUED PERFORMANCE BONDS WITH SURETY BONDS. NOT CLEAR TO US WHETHER THIS BASED ON LEGAL LIMITATIONS OR SIMPLY COMMERCIAL UNATTRACTIVENESS AS SEEN BY SURETY COMPANIES.

7. EMBASSY BELIEVES THAT VISIT BY SURETY TEAM WAS VERY EDUCATIONAL AND USEFUL IN INITIATING DIALOGUE. ONE AREA THAT SHOULD BE EXPLORED FURTHER IS POSSIBLE ROLE OF KUWAITI INSURANCE COMPANIES PERHAPS WORKING WITH US SURETY FIRMS. WE WISH TO LOOK INTO THIS AND TO CONTINUE DISCUSSIONS WITH INTERESTED LOCAL BANKERS, BUSINESSMEN AND OFFICIALS. THEREFORE, EMBASSY REQUESTS THAT WE BE KEPT ABREAST OF NEW INFORMATION AND DEVELOPMENTS IN THIS UNCLASSIFIED

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CONSTRUCTION INDUSTRY, BONDS (SECURITIES), CREDIT GUARANTEES, BANKERS, CONSULTANTS, MEETING PROCEEDINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 26 FEB 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Original Handling Restrictions:** n/a  
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**Previous Channel Indicators:** n/a  
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**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** castelsl  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 16 JUL 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <16 JUL 2004 by schwenja>; APPROVED <01 SEP 2004 by castelsl>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SURETY BOND DISCUSSIONS IN KUWAIT SUMMARY: DURING TWO DAYS OF MEETINGS WITH BANKERS AND OTHERS  
**TAGS:** EFIN, ECRE, BEXP, KU  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006